Missouri Corporate Credit Union

Recipient of the Missouri Quality Award

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Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Submitted By: e-mail to regcomments@ncua.gov

Dear Members of the Board,

Thank you for allowing me the opportunity to comment on corporate credit unions. My comments reflect the experience I have gained in working in and managing a sponsor based credit union for the last 35 years. I am stating my thought on this subject as I have experienced them as President of Educational Community Credit Union (ECCU). We are a 70 year old, $40 million asset size, state chartered, federally insured, serve 7300 elementary, secondary, and college level teachers, administrators, maintenance personnel, and alumni/students in southwest Missouri.

I became President of ECCU 11 years ago and we have fortunately grown and prospered with our members over that period of time. We may have doubled our assets during those 11 years, but that is not our success story. Our success story is our ability to be at ground level in helping our member with their needs and problems. Missouri Corporate Credit Union (MCCU) has been in the trenches with us and has been and will continue to be instrumental in allowing us to concentrate on what is important, namely service to members. They go out of their way to deliver quality, accurate, and timely service to us and our members. They are literally part of our back office. We trust them and we are continuing to utilize thier services on a daily basis. Small credit unions like us do not have the luxury a bigger credit union does, we need MCCU to survive.

I realize that they were impacted by the problems at U.S. Central Federal Credit Union and we are going to have some Membership Share losses to write off in the future. Maybe they should have been paying us a lesser dividend or U.S. Central should have been paying MCCU a lesser dividend and both increasing there reserves to the same level as a natural person credit union. The question of adequate reserves and risk frankly falls squarely within the realm of the regulators, because you have the macro view of the system inside (individual corporate weaknesses) and out (market risk). My vision of the corporate system is finite since I have dealt for a long time with MCCU. However, doing so has protected us from greater losses than many of the larger credit unions. I hope and pray that our business partner MCCU is not faced with extinctions.

Sincerely,

Steve Wansing

Steve Wansing
ECCU President

## C. Issues for Consideration.

1. **The Role of Corporates in the Credit Union System.**
*Response: Keep the corporate system structure as it is. Eliminating the second or wholesale tier from the corporate system will weaken small to medium size credit union because MCCU plays a vital role in disseminating information and training similar to what the league perform. As our world becomes more complicated they become more necessary in achieving compliance. A good example of this is the number of members that MCCU has attracted over the past 3 years because they give the service.*

*I believe that if the Corporate system had remained structured as originally intended (non competitive) Its capital structure would have been adequate today. The mergers and national field of membership push the bad kind of competition, that is, rate competition. Higher rates almost immediately lead to higher risk taking without adequate reserves to offset those risks.*

*Isolating payment services risk can be easily answered by following MCCU current plan of staying within the current corporate network. Then regulators only have to monitor U.S. Central's risk.*

*It appears that the only board that failed was the SEC board by allowing the rating agencies (Moody, Fitch, S&P) to perform lax or inadequate analysis on the bonds purchased by corporates. My suggestion would be to begin there with your board restructuring. NCUA should consider starting its own bond rating agency, because $4.5 million per year is a lot cheaper than $1.0 billion.*

*<u>Payment system.</u>*
*Response: Some questions may be arising in your mind not mine concerning transaction risk. NCUA own experiment with U.S. Central should prove that it is possible that within an organization they can be a separate, stand along function. I also doubt there would be sufficient earnings to support a limited business model that is restricted to payment system services only.*

*<u>Liquidity and liquidity management.</u>*

*Response: Liquidity ought to be considered a core service of the corporate system, and the CLF should be utilized to preserve and/or fund those liquidity needs. The CLF should perform (as corporates do) a regular due diligence review on each request for funds prior to disbursal.*

*<u>Field of Membership Issues.</u>*

*Response: I think it goes without saying that the NCUA decision to allow corporates to have national fields of membership (FOMs) has resulted in significant, and unforeseen, risk taking by some corporates. However, most corporates have handled the national FOM issue well without taking on riskier investments and they should be allowed or rewarded with retaining their national FOMs.*

*<u>Expanded Investment Authority.</u>*

*Response: Only U.S. Central should be allowed to utilize expanded investment authority. All other corporates should not be allowed to invest as liberally but function as a pass through to U.S. Central to invest those dollars. If you utilized this structure you would not loose capital on two levels as you did with WesCorp and endanger its credit union members significantly more than MCCU did.*

*<u>Structure; two-tiered system.</u>*

*Response: Keep the corporate system as is, it has worked for over 30 years. The recent events are literally not of its making and credit union's have enough reserves in the system to survive better than the banking system.*

**2. Corporate Capital.**
*Response: Call it core capital, membership capital, risk based capital, PIC, or whatever you want to call it, just be sure that the minimum capital level necessary to achieve is set at 7% or above.*

*Core capital.*

*Membership capital.*

*Risk-based capital and contributed capital requirements.*

**3. Permissible Investments.**
*Response: The best and fastest way to get through a crisis on the books is to grow out of it. I believe that U.S. Central should be allowed the same investment parameters as before 1/28/09. They are the recipient of bad advice the same as banks, to restrict them now will place them at a grave disadvantage to survive and function effectively in the current financial marketplace.*

**4. Credit Risk Management.**
*Response: NCUA should considering curbing the extent to which a corporate may rely on any credit ratings provided by Nationally Recognized Statistical Rating Organizations (NRSROs). NCUA should perform its own review or require the corporate to perform an internal review of those ratings before investing. Factors would include concentration limits on sector, geographic region, and private issuer,*

*NCUA should publish the corporates annual examination ratings and let natural person credit unions better evaluate corporate risk for themselves.*

**5. Asset Liability Management.**
*Response: I believe the stress test were adequate and would not have depicted the credit defaults that were hidden in the bonds purchased.*

**6. Corporate Governance**
*Response: I believe that the current structure of retail and wholesale corporate credit union boards is appropriate given the corporate business model. Because the larger paid bank boards also failed to recognize or act any better than the credit union volunteer boards.*